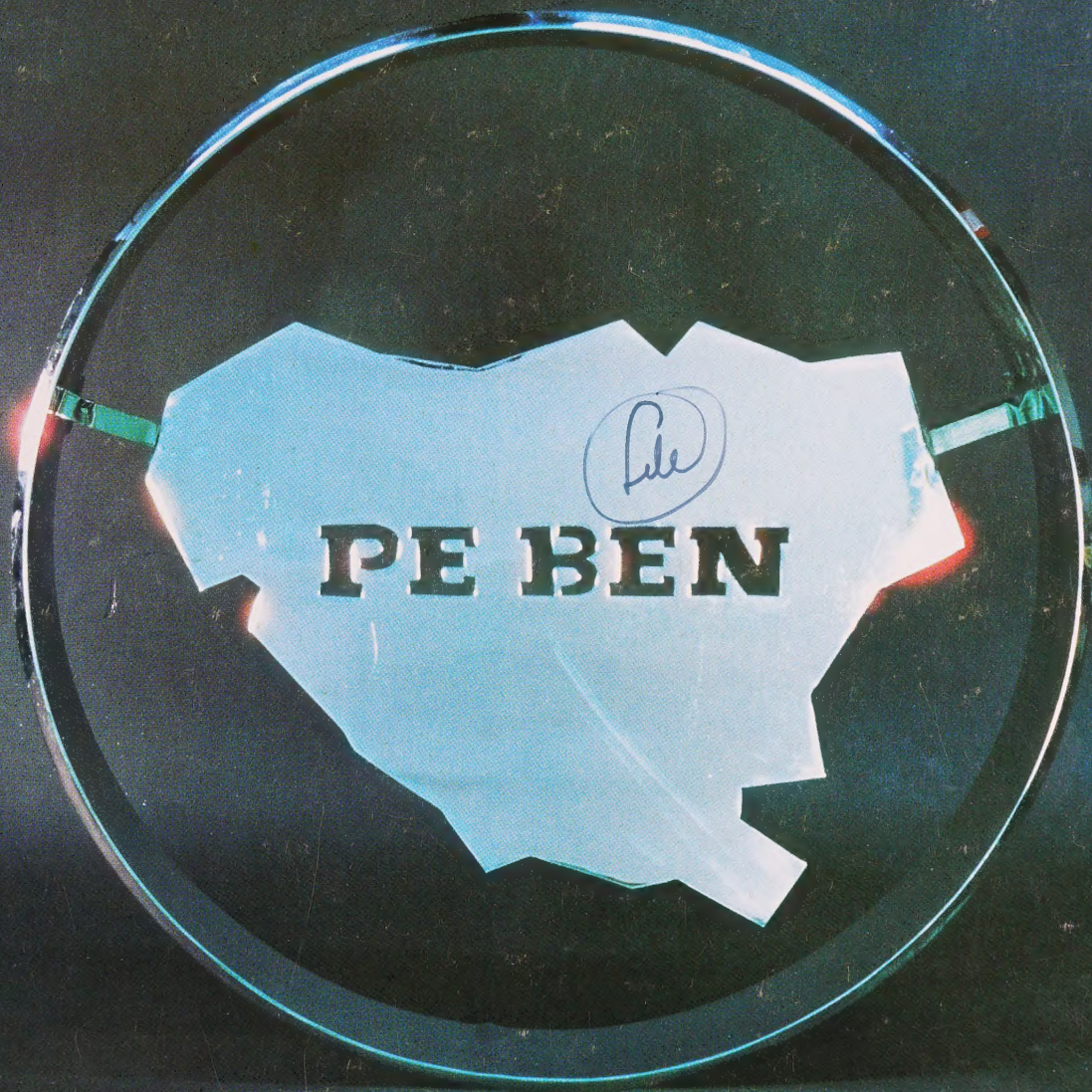




Pe Ben Oilfield Services Ltd.

Pe Ben Oilfield Services Ltd.

1979 Annual Report

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Highlights of Operations

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Corporate Information

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Corporate Information

Board of Directors:

G. H. Bigelow, Edmonton
G. R. Caron, Edmonton
G. P. Clarkson, Toronto
M. Gaasenbeek, Toronto
H. A. Martin, Vancouver
B. F. Michetti, Edmonton
E. L. Shipka, Edmonton
J. N. Turvey, Vancouver

Officers:

G. H. Bigelow, President and Chief Executive Officer
J. N. Turvey, Secretary-Treasurer
B. F. Michetti, Assistant-Secretary

Executive Office:

17 Street & 45 Avenue
P.O. Box 5805, Station "L"
Edmonton, Alberta

Transfer Agent and Registrar:

National Trust Company Limited, Toronto

Stock Exchanges:

Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal

Bankers:

Mercantile Bank of Canada

Solicitors:

MacPherson, Leslie & Tyerman, Regina
Swinton & Co., Vancouver

Auditors:

Dunwoody & Company, Edmonton

Financial Summary

	1979	1978
Gross revenue	\$ 15,748,088	\$ 6,815,893
Income (loss) before taxes, extraordinary item and minority interests	(1,148,906)	(1,602,798)
Income (loss) from operations (before extraordinary item and minority interests)	(611,106)	(820,498)
Working capital at year end	(335,584)	579,693
Additions to property, plant and equipment	2,736,701	242,111
Long term debt at year end	2,665,346	2,777,529
Total assets at year end	16,357,420	11,912,984
Shareholders equity at year end, (including 1979 appraisal surplus)	7,677,465	4,621,831
Shares outstanding	2,185,151	1,977,600
Income (loss) per share before extraordinary item	(.29)	(.28)
Net income (loss) per share for the year	(.26)	(.47)



Report to the Shareholders

The Board of Directors submit herewith the Annual Report of your Company for the Year Ended December 31, 1979, together with the Financial Statements and Report of your Auditors.

The year under review was again a relatively slow year for business in the segment of the oil and gas industry served by the Company. Stringing, stockpiling and pipeline construction were all well below normal volumes, but, of the business available, the Company was able to obtain its normal share. It is expected that 1980 will prove to be a much more productive year where increased volume and realistic pricing will be experienced.

The continued delays in the big inch pipeline construction work was a costly experience for your Company. However, it has been management's decision to keep key operational personnel and equipment ready and available for forthcoming big inch pipeline work. During 1979 the pipeline construction; stringing and stockpiling; and transportation and field warehousing divisions were kept as active as possible. The transportation and field warehousing division in particular continued to expand its operations and is now thought to be one of the largest such facilities in the oil and gas industry. Its operations provided the major contribution in a difficult year.

During the latter part of the year two key events have taken place that should enhance the stability and future profitability of your Company.

One key event was the decision of the Directors to reorganize the pipeline construction division. On December 13, 1979 Foreign Investment Review Agency approval was obtained for the formation of Pe Ben Pipelines (1979) Ltd. One of the participants with your Company in Pe Ben Pipelines (1979) Ltd., is Nacap B. V. of Holland, one of the major pipeline contractors in the world. Nacap is a member of the Royal Bos Kalis Westminster Group N. V. It is thought that the association very considerably increases the resources, financial base and know-how available for the big inch pipeline construction work foreseen in Canada over the next several years.

Report to the Shareholders

CONTINUED

The other key event was the consolidation of the Milton Brick operation into the parent Company during the year. Included in the assets are approximately three hundred acres of land, mining license, and a brick plant with the capacity to manufacture sixteen million bricks annually, located at Milton, Ontario. On January 28, 1980 proposed revisions to the Milton mining license were formally approved. This provides sufficient ore reserves to allow an expanded brick plant to operate at a level of production that would be financially viable. Your Directors made a decision not to refinance this plant at the expense of our main operations (pipeline related work), and decided to bring in a partner in order to activate the Milton plant.

With the establishment of the pipeline construction activity into a well financed operating entity, the Directors are currently formalizing plans to ensure that profit opportunities are maximized during the coming year in the Transportation and Field Warehousing , stringing and stockpiling Divisions and are proposing a partnership arrangement of the Milton Brick operation.

G. H. Bigelow, President

FINANCIAL STATEMENTS 1979



Auditors' Report

TO THE SHAREHOLDERS

Pe Ben Oilfield Services Ltd.

We have examined the consolidated balance sheet of Pe Ben Oilfield Services Ltd. as at 31 December 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at 31 December 1979 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
15 March 1980

DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS

Pe Ben Oilfield Services Ltd.

Consolidated Statement of Income and Retained Earnings

for the year ended 31 December 1979

	1979	1978
Revenue, note 1	\$ 15,748,088	\$ 6,815,893
Expenses		
Operating and administration	15,505,377	7,389,195
Depreciation	756,023	537,388
Interest — current	144,776	49,552
— long term	579,494	499,021
Gain on disposal of fixed assets	(28,370)	(56,465)
Gain on disposal of land and equipment held for resale	(60,306)	—
	16,896,994	8,418,691
Loss before income taxes, minority interest and extraordinary items	(1,148,906)	(1,602,798)
Income taxes		
Current	21,200	(162,300)
Deferred	(559,000)	(620,000)
	(537,800)	(782,300)
Loss before minority interest and extraordinary items	(611,106)	(820,498)
Minority interest in loss of subsidiary company	(14,778)	(280,725)
Loss before extraordinary items	(596,328)	(539,773)
Extraordinary items, note 11	57,867	(359,449)
Loss for the year	(538,461)	(899,222)
Retained earnings, beginning of year	2,502,514	3,401,736
Retained earnings, end of year	\$ 1,964,053	\$ 2,502,514
Earnings per share		
Loss before extraordinary items	\$ (.29)	\$ (.28)
Extraordinary items	.03	(.19)
Loss for the year	\$ (.26)	\$ (.47)

Pe Ben Oilfield Services Ltd.

Consolidated Balance Sheet

as at 31 December 1979

ASSETS		
	1979	1978
Current		
Short term deposit receipts	\$ 575,000	\$ —
Accounts receivable, note 2	3,276,382	2,084,729
Income taxes recoverable	141,131	241,592
Inventories, notes 1 and 3	510,833	438,966
Equipment and land held for resale, note 1	380,515	1,026,967
Prepaid expenses	57,912	83,673
Current portion of notes receivable	148,050	148,050
	5,089,823	4,023,977
Notes Receivable, note 4	553,150	206,300
Fixed, notes 1 and 5	10,486,641	7,396,137
Other, notes 1 and 6	227,806	286,570
Approved on behalf of the Board:		

Director		
	\$ 16,357,420	\$ 11,912,984

Director		

LIABILITIES		
	1979	1978
Current		
Bank indebtedness, note 7	\$ 3,059,906	\$ 1,072,774
Accounts payable	1,866,547	1,069,836
Current portion of long term debt	498,954	1,301,674
	<u>5,425,407</u>	<u>3,444,284</u>
Long Term Debt, note 8	<u>2,665,346</u>	<u>2,777,529</u>
Deferred Income Taxes, note 1	<u>562,000</u>	<u>1,021,500</u>
Minority Interest in Subsidiary Company, note 1	<u>27,202</u>	<u>47,840</u>

SHAREHOLDERS' EQUITY		
Share Capital, note 9		
Authorized		
2,500,000 Common shares of no par value, aggregate consideration not to exceed \$5,000,000		
Issued		
2,185,151 Common Shares (1978 1,977,500)	<u>2,637,369</u>	<u>2,119,317</u>
Appraisal Increase Credit, note 10	3,076,043	—
Retained Earnings	<u>1,964,053</u>	<u>2,502,514</u>
	<u>7,677,465</u>	<u>4,621,831</u>
	<u>\$16,357,420</u>	<u>\$11,912,984</u>
Statutory Information, note 12		
Contingent Liability, note 13		

Consolidated Statement of Changes in Financial Position

for the year ended 31 December 1979

	1979	1978
Source of funds		
Proceeds on sale of fixed assets	\$ 134,828	\$ 610,565
Decrease (increase) in notes receivable	103,150	(71,600)
Reclassification of land and equipment held for resale	—	1,026,967
Extraordinary items involving funds, note 11	4,635,043	—
Issuance of share capital	\$518,052	
Less: Notes receivable assumed	(450,000)	
Minority interest purchased	(33,062)	
	<u>34,990</u>	<u>(147,956)</u>
	<u>4,908,011</u>	<u>1,417,976</u>
Application of funds		
Operations		
Loss before extraordinary items	596,328	539,773
Items not involving funds		
Depreciation	(711,653)	(537,388)
Deferred income taxes	559,000	465,500
Amortization of storage yard improvements	(58,764)	(53,810)
Gain on disposal of fixed assets	28,370	56,465
Minority interest	14,778	280,725
	<u>428,059</u>	<u>751,265</u>
Purchase of fixed assets	2,736,701	242,111
Decrease in long term debt	1,100,295	965,051
Extraordinary item involving funds	—	552,726
Funds applied on acquisition of subsidiary company, note 1	1,558,233	—
	<u>5,823,288</u>	<u>2,511,153</u>
Decrease in working capital	<u>(915,277)</u>	<u>(1,093,177)</u>
Working capital, beginning of year	579,693	1,672,870
Working capital (deficiency), end of year	<u>\$ (335,584)</u>	<u>\$ 579,693</u>
Represented by		
Current assets	\$5,089,823	\$4,023,977
Current liabilities	5,425,407	3,444,284
	<u>\$ (335,584)</u>	<u>\$ 579,693</u>

Notes to Consolidated Financial Statements

31 December 1979

1. Significant Accounting Policies

The following is a summary of significant accounting policies of the company:

(a) Principles of Consolidation

These financial statements include the accounts of the company, its wholly owned subsidiaries, Flemdon Limited of which the company owns 52.583% and 50% of the assets, liabilities, revenue and expenses of Pe Ben Pipelines (1979) Ltd., a corporate joint venture.

During the year, certain wholly owned subsidiary companies were amalgamated.

During the year, the company acquired the following subsidiary companies:

Milton Group Limited
Transmill Properties Corp. Limited
Global Marble of Canada Limited
Regal Transport Limited
Flemdon Limited

The excess of purchase price over net book value at date of acquisition has been allocated as follows:

Land	\$1,110,565
Ore body	812,492
	<u>\$1,923,057</u>

Working capital applied on acquisition of subsidiary companies is represented by the following:

Fixed assets	\$2,573,547
Long term debt	(988,112)
Minority interest	(27,202)
	<u>\$1,558,233</u>

(b) Inventories

Inventories are stated at the lower of cost and net realizable value.

(c) Equipment and Land Held for Resale

Equipment and land held for resale are stated at the lower of cost less accumulated depreciation and net realizable value.

Notes to Consolidated Financial Statements

31 December 1979

1. Significant Accounting Policies, Continued

(d) Depreciation

Depreciation is provided on the straight line basis as follows:

Office buildings and parking lot	— 5 %
Leasehold improvements	— 20 %
Cranes and heavy construction equipment	— 5 %
Contract buildings	— 10 %
Machinery and office equipment	— 10 %
Heavy trucks and trailers	— 10 %
Light trucks and automobiles	— 20 %
Brick plant buildings	— 2½%
Brick plant equipment	— 10 %
Computer equipment under capital lease	— 20 %

(e) Deferred Income Taxes

Deferred income taxes result from claiming capital cost allowance and other items for income tax purposes in excess of depreciation and other expenses recorded in the accounts. The deferred income taxes have been reduced by the benefit of tax losses carried forward totalling \$1,406,000. The potential benefit of additional tax losses in the amount of \$2,165,000 of a subsidiary company acquired during the year have not been reflected in these financial statements. The tax losses expire in varying amounts from 1981 to 1984.

(f) Income Recognition

The company recognizes income on pipeline construction contracts on the percentage of completion basis.

2. Accounts Receivable

	1979	1978
Trade	\$2,423,536	\$1,756,490
Holdbacks	742,305	23,528
Milton Group Limited	—	231,172
Due from director, 11¼% interest, principal in the amount of \$100,367 secured by an irrevocable chartered bank letter of guarantee	110,541	73,539
	<u>\$3,276,382</u>	<u>\$2,084,729</u>

Notes to Consolidated Financial Statements

31 December 1979

3. Inventories

	1979	1978
Work in progress	\$ —	\$ 118,982
Parts and supplies	510,833	319,984
	<u>\$ 510,833</u>	<u>\$ 438,966</u>

4. Notes Receivable

	1979	1978
Mortgage, interest at prime plus 3%, repayable annually \$58,250, principal plus interest, maturing 1981	\$ 116,500	\$ 174,750
Note, interest free, repayable \$44,900 annually, maturing 1981	134,700	179,600
Note from senior officer, interest free, secured by 180,000 common shares of the company, repayable \$64,285 in each of the years that a specific subsidiary company attains a certain level of tax- able income	450,000	—
	<u>701,200</u>	<u>354,350</u>
Current portion	148,050	148,050
	<u>\$ 553,150</u>	<u>\$ 206,300</u>

5. Fixed Assets

	1979		1978	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 4,468,500	\$ —	\$ 233,456	\$ —
Ore body	812,492	—	—	—
Office buildings and parking lot	491,829	163,337	491,829	137,969
Leasehold improvements	122,865	4,096	—	—
Cranes and heavy con- struction equipment	2,899,597	333,600	4,667,272	495,372

Notes to Consolidated Financial Statements

31 December 1979

5. Fixed Assets, Continued

	1979		1978	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Contract buildings	282,659	127,803	273,136	101,460
Machinery and office equipment	464,129	206,378	882,247	246,741
Heavy trucks and trailers	2,112,951	1,174,338	2,650,554	1,166,667
Light trucks and automobiles	189,698	44,703	516,068	170,216
Brick plant buildings	344,026	186,006	—	—
Brick plant machinery and equipment	1,328,372	884,336	—	—
Computer equipment under capital lease	94,120	—	—	—
	<u>13,611,238</u>	<u>3,124,597</u>	<u>9,714,562</u>	<u>2,318,425</u>
Cost less accumulated depreciation	<u>\$10,486,641</u>		<u>\$7,396,137</u>	

The brick plant assets were not depreciated in 1979 as the plant did not operate during the year.

Fixed assets are recorded at cost except for the company's Edmonton land which is at its appraised value as at 31 December 1979 as determined by Sunalta Appraisals Ltd. in its report dated 2 January 1980.

6. Other Assets

	1979	1978
Operating authorities, at cost	\$ 227,806	\$ 227,806
Storage yard improvements, at cost less amortized portion	—	58,764
	<u>\$ 227,806</u>	<u>\$ 286,570</u>

Notes to Consolidated Financial Statements

31 December 1979

7. Bank Indebtedness

	1979	1978
Bank balances less cheques in transit	\$ 337,481	\$ 22,674
Loans	2,722,425	1,050,100
	<u>\$3,059,906</u>	<u>\$1,072,774</u>

The bank loans are secured by a general assignment of book debts, a debenture giving a first charge on certain land, buildings and equipment and a floating charge on all other assets and an assignment of fire insurance proceeds.

8. Long Term Debt

	1979	1978
Conditional sales contracts, secured by specific equipment, repayable \$12,127 monthly including principal and interest at rates of 13½%, 11¼% and prime plus 2½%, maturing 1980	\$ 51,320	\$ 182,675
Obligation under capital lease, payable \$2,263 monthly, maturing 1984	90,868	—
Mortgage, interest free, not due within one year	19,755	—
Class A debenture payable, secured by land and buildings, interest non-cumulative at 10%, payable from profits of a specific subsidiary, due 1984	44,867	—
Class B debenture payable, interest non-cumulative at 10% payable from profits of a specific subsidiary, due 1986, convertible into a maximum of 10% of the outstanding common shares of the subsidiary	257,490	—

Notes to Consolidated Financial Statements

31 December 1979

8. Long Term Debt, Continued

Bank loans, interest at prime plus ½%, secured by a general assignment of book debts and an assignment of fire insurance proceeds.

The bank loans are demand notes but banking agreements call for repayments of interest monthly, principal in forty equal quarterly installments commencing in 1981.

The banking agreements as reflected in these financial statements were finalized on

14 March 1980

1979

1978

1,700,000

3,743,750

Agreement for sale, secured by land held for resale, interest at prime plus 2%, repayable \$6,944 monthly plus interest

—

152,778

Bank loans, interest at prime plus 2%, secured by a pledge of book debts, inventories, specific equipment, land and an assignment of fire insurance proceeds. The banking arrangements call for repayments of interest monthly and three equal annual principal repayments commencing in 1980

1,000,000

—

3,164,300

4,079,203

Current portion

498,954

1,301,674

\$2,665,346

\$2,777,529

Principal payments due in the next five years are as follows:

1980	\$498,954
1981	510,237
1982	511,254
1983	182,674
1984	179,069

Notes to Consolidated Financial Statements

31 December 1979

9. Share Capital

180,000 common shares were issued to a senior officer during the year in return for a note receivable (note 4). The directors of the company valued these shares at the quoted market value of the company's shares at the date of the transaction.

27,551 common shares were issued in exchange for the minority interest of 6.3% in Pe Ben Pipelines Limited. The directors of the company valued these shares at the quoted market value of the company's shares at the date of the exchange.

10. Appraisal Increase Credit

The appraisal increase credit represents the excess of the appraised value of the Edmonton land over its cost. No provision for income taxes on disposition has been reflected in these financial statements. Management has estimated these taxes to be approximately \$685,000.

11. Extraordinary Items

The extraordinary items consist of income taxes recovered due to the application of losses of prior years in the amount of \$14,300 and a gain on the disposal of the pipeline construction equipment fleet. The gain is net of income taxes of \$99,500.

12. STATUTORY INFORMATION

The direct remuneration paid or payable to directors and senior officers of the company as defined under the Companies Act of Alberta amounted to \$256,359. (1978 — \$210,260).

13. Contingent Liability

On 13 December 1979, the company entered into an arrangement with Nacap B.V., a member of the Royal Bos Kalis Westminster Group, Holland, for the operation of Pe Ben Pipelines (1979) Ltd., a corporate joint venture and the successor to Pe Ben Pipelines Limited. The finances and bonding of Pe Ben Pipelines (1979) Ltd. are jointly and severally guaranteed by the participants. As at 31 December 1979, the bank loans of Pe Ben Pipelines (1979) Ltd. totalled \$3,400,000.

